MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/ 2018

BFN1014 – FINANCIAL MANAGEMENT 1

(All Sections / Groups)

27 OCT 2017
9:00 AM – 11:00AM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **2** pages with **6** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Booklet** provided.

Please Answer All the Questions

Question 1: 15 marks

After careful analysis, Ali Berhad has determined that its optimal capital structure is composed of the sources and target market value weights as follow:

Source of capital	Book Value (RM)	Market Value (RM)	After tax cost (RM)
Long term debt	4,000,000	3,840,000	6.0%
Preferred stock	40,000	60,000	13.0%
Common stock	1,060,000	3,000,000	17.0%
Totals	5,100,000	6,900,000	

a) Calculate the weighted average cost of capital using book value weights and market value weights? (10 marks)
b) Compare the answers and explain the differences. (5 marks)

Question 2: 20 marks

Ahah Berhad must choose between a gas-powered and an electric-powered forklift truck for moving materials in its factory. Since both forklifts perform the same function, the firm will choose only one. (They are mutually exclusive investments). The electric-powered truck will cost more, but it will be less expensive to operate; it will cost RM22,000, whereas the gas-powered truck will cost RM17,500. The cost of capital that applies to both investments is 12 percent. The life for both types of truck is estimated to be 6 years, during which time the net cash flows for the electric-powered truck will be RM6,290 per year and those for the gas-powered truck will be RM5,000 per year. Annual net cash flows include depreciation expenses.

Calculate:

a) Net Present Value (7 marks)
b) Internal Rate of Return (7 marks)
c) Advice Ahah Berhad which project should be accepted (6 marks)

Question 3: 15 marks

The Ara Berhad has an inventory conversion period of 75 days , a receivables collection period of 38 days and a payables deferral period of 30 days.

a) What is the length of the firm's cash conversion cycle? (5 marks)
b) If Ara Berhad's annual sales are RM3.421,875 and all sales are on credit, what is the firm's investment in account receivable? (5 marks)
c) How many times per year does Ara Berhad turn over its inventory? (5 marks)

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Question 4: 15 marks

ECRI Corporation is a holding company with four main subsidiaries. The percentage of its business coming from each of the subsidiaries, and their respective betas, are as follows:

Subsidiary	Percentage of business	Beta
Electric utility	60%	0.70
Cable company	25%	0.90
Real estate	10%	1.30
International/special projects	5%	1.50

a) What is the holding company's beta? (5 marks)
b) Assume that the risk-free rate is 6 percent and the market risk peremium is 5 percent. What is the holding company's required rate of return? (5 marks)
c) ECRI is considering a change in its strategis focus; it will reduce its reliance on the electiric utility subsidiary, so the percentage of its business from this subsidiary will be 50 percent. At the same time ECRI will increase its reliance on the international/special projects division, so the percentage of its business from that subsidiary will rise to 15 percent. What will be the shareholders' required rate of return if they adopt these changes? (5 marks)

Question 5: 25 marks

The Oxford Heating Company has been very successful in the past four years. Over these years, it paid common stock dividend of RM4 in the first year, RM4.20 in the second year, RM4.41 in the third year, and its most recent dividend was RM4.63. The company wishes to continue this dividend growth indefinitely. What is the value of the company's stock if the required rate of return is 12 percent?

Question 6: 10 marks

a) What is the two principal reasons for holding cash? (5 marks)
b) Can a firm estimate its target cash balance by summing the cash held to satisfy each of the two reasons? (5 marks)

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